

City of Minneapolis

Finance Department

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Mayor R. T. Rybak,
Council President Paul Ostrow,
City Council Members,
And Citizens Of the City of Minneapolis, Minnesota

TRANSMITTAL

We are pleased to present the Comprehensive Annual Financial Report (CAFR) for the City of Minneapolis for the year ended December 31, 2001. The purpose of the report is to provide the Mayor, City Council, City staff, citizens, bondholders, and other interested parties with useful information concerning the City's operations and financial position. The City is responsible for the accuracy, completeness, and fairness of the data presented in this report.

To the best of our knowledge, the following report is accurate in all material respects. It has been prepared in accordance with standards prescribed by the Governmental Accounting Standards Board (GASB), the Government Finance Officer Association of the United States and Canada (GFOA) and other rule-making bodies. We believe the report contains all disclosures necessary for the reader to understand the City's financial affairs.

THE REPORT

This report consists of three sections. Section I, the introductory section, contains the table of contents, this transmittal letter, and other general interest material. Section II, the financial section, contains the auditor's opinion, the City's general purpose financial statements, notes to the financial statements, and detailed combining and individual statements and schedules for the City's funds and account groups. Section III, the statistical section, includes a ten-year history of financial and non-financial data that give a context in which to understand the City's financial statements.

STEWARDSHIP

The City prepares financial reports to promote *accountability*. The City's elected officials are accountable to the citizens; City management is accountable to the elected officials. This report gives citizens and other interested parties one means of assessing whether the elected and appointed officials in the City have faithfully carried out their role of being good stewards of the City's resources.

INTERNAL AND BUDGETARY CONTROLS

The City's management is responsible for establishing a system of internal controls to:

- 1) Safeguard City assets from loss or unauthorized use or disposal.
- 2) Provide reliable financial records for preparing internal and external financial reports and for maintaining accountability over City assets.
- 3) Ensure compliance with applicable Federal and State laws and regulations related to programs for which the City receives assistance.

No system of internal controls can be perfect. Therefore, internal controls are meant to provide "reasonable assurance." Reasonable assurance means:

- 1) The cost of a control should not exceed the benefits likely to be derived from that control.
- 2) The costs and benefits of internal controls are subject to estimates and judgements by management.

We believe that the City's internal controls reasonably safeguard assets, assure that financial transactions are properly recorded and reported, and ensure compliance with applicable Federal and State laws and regulations.

As the City's governing officials, the Mayor and City Council are responsible to:

- 1) Ensure that the City administration fulfills its responsibilities in the preparation of the financial statements;
- 2) Review the scope of the City's audits and the accounting principles applied in the City's financial reporting.

To ensure independence, the Office of the State Auditor has full and free access to meet with the City Council to discuss the results of their assessment of the adequacy of internal accounting controls and the quality of the City's financial reporting.

In addition to its system of internal controls, the City maintains a system of budgetary controls. Budgetary controls assure compliance with the City Council's approved budget. Annually, the City adopts budgets on a basis consistent with generally accepted accounting principles (GAAP) for its General Fund and Special Revenue funds. Capital projects funds adopt project-length budgets. Debt service expenditures are controlled through bond ordinances.

The legal level of budgetary control is the agency (department) level. Budgetary amendments at the department level within funds must be approved by the City Council. Appropriations lapse at year-end.

Purchasing control is maintained by an encumbrance system. Purchase orders, contracts, and other commitments are recorded within the City's accounting system as encumbrances. Encumbrances reserve appropriation authority. Purchase orders and contracts are pre-audited for appropriation authority through the system. Orders that exceed appropriated balances are not

released until funded or approved. Encumbrances outstanding at the end of the year are reported as reservations of fund balance and do not represent GAAP expenditures.

THE CITY AND ITS SERVICES

Physical Description

The City of Minneapolis, located in Hennepin County, is the largest city in Minnesota and serves as the center of finance, industry, trade, and transportation for the Upper Midwest region of the United States.

Minneapolis is 59 square miles, including five square miles of inland water. The City drapes along the banks of the nation's largest river, the Mississippi. Minneapolis is known as "The City of Lakes" featuring 22 lakes and 170 city parks. The Minneapolis Park System is one of the City's most prized assets.

There are 81 residential neighborhoods within in the City offering a broad range of housing to 166,000 households. Minneapolis has more than thirty theaters; the Guthrie Theater and the Children's Theatre Company are recognized as two of the country's best. The City boasts two world-class art museums and is home to the internationally acclaimed Minnesota Orchestra.

Minneapolis is home to an estimated 382,600 people (2000 Census data). According to 2000 Census data, the population within the City grew by 3.9 *per cent* from 1990 to 2000, reversing a trend of declining population that began in 1950. Persons of color comprise an estimated 30.5 *per cent* of the City's population.

Minneapolis, as the major city within the larger metropolitan area, enjoys a strong and highly diverse business foundation of companies involved in manufacturing supercomputers, electronics, medical instruments, milling, machine manufacturing, food processing and graphic arts. In addition, with seven hospitals and the University of Minnesota, Minneapolis is a nationally known medical center that produces many high technology medical products.

Most of the information above is from the "State of the City 2001", a publication of the City of Minneapolis Planning Department. The State of the City contains a wealth of demographic and other data, which paint a detailed and thorough picture of the City. The "State of the City" document is available on-line at www.ci.minneapolis.mn.us/planning or may be obtained by writing to the planning department at 350 S. 5th Street, Room 210 City Hall, Minneapolis, MN 55415-1385.

Form of Government and Organization

The City is a municipal corporation governed by a Mayor-Council form of government; it was incorporated in 1867, and it adopted a Charter on November 2, 1920. The Mayor and 13 City Council Members from individual wards are elected for terms of four years, without limit on the number of terms that may be served.

City Council

As provided in the City Charter, the City Council governs Minneapolis through its legislative, administrative, and financial power over City functions. The Council levies taxes, enacts ordinances and resolutions, licenses businesses, and exercises budgetary and policy control over City departments.

Council members represent the interests of their constituents. They respond to inquiries, suggestions and complaints regarding City programs and services and meet regularly with constituents to discuss developments affecting the ward that they represent, and the city as a whole.

Mayor

The Mayor is responsible for a variety of leadership duties, including: appointing representatives to a variety of agencies and commissions, nominating department head candidates for Executive Committee and Council approval, proposing the annual operating and capital budgets, and reviewing, approving, or vetoing all Council actions.

Departments

The City organizes itself by departments, which are managed by department heads (see City of Minneapolis organization chart at the end of this transmittal letter). These City departments provide a broad range of services including: police; fire; health and family support services; public works; assessment of property; attorney services; civil rights; planning; regulatory services; and management support services.

THE REPORTING ENTITY

The City organizes its financial activities in a variety of funds and account groups. In accordance with GASB Statement No. 14, the City's financial statements include all funds and account groups of the City ("primary government") as well as its component units. The primary government represents all funds and account groups under the ultimate control of the Mayor and City Council. Component units are separate legal entities. While legally separate, component units are part of City government *in substance*. The City's financial statements would be misleading without incorporating component unit information.

Component units are reported as if they were an integral part of the City ("blended") if they meet one of two criteria:

- 1) The governing board of the component is "substantively the same" as the primary government's board.
- 2) The component serves the primary government exclusively or almost exclusively.

The Minneapolis Community Development Agency (MCDA) is blended with the City because the City Council exercises effective control of the MCDA's governing board. In fact, the City Council is the MCDA's governing board. Other entities blended with the primary government are the Board of Estimate and Taxation (BET) and the Municipal Building Commission (MBC). The BET and MBC provide services almost entirely to the City.

Some component units are reported in a separate column of the City's financial statement set apart from the rest of the primary government. Units are discretely presented in the financial statements because, while the City is financially accountable for them, they do not meet the criteria for blending noted above. The Minneapolis Library Board and the Minneapolis Park and Recreation Board are discretely presented components in the City's financial statements.

ECONOMIC CONDITION AND OUTLOOK

In the 2000 Comprehensive Annual Financial Report for the City of Minneapolis, we reported that at the end of 2000 most economists were predicting a slowdown in the National economy but not a recession for 2001. As we now know, the National Bureau of Economic Research's measurements show that the economy did slip into a recession beginning in March of 2001. The weakened economy, and in particular the travel and tourism sector, was further shocked by the September 11th tragedy. While the demand for City services does not tend to change with the level of economic activity, certain revenues used to finance those services are sensitive to the level of economic activity. Local property taxes and shared taxes (State Aids)--which in Minnesota are derived from personal income and sales taxes—can be affected by the level of economic activity.

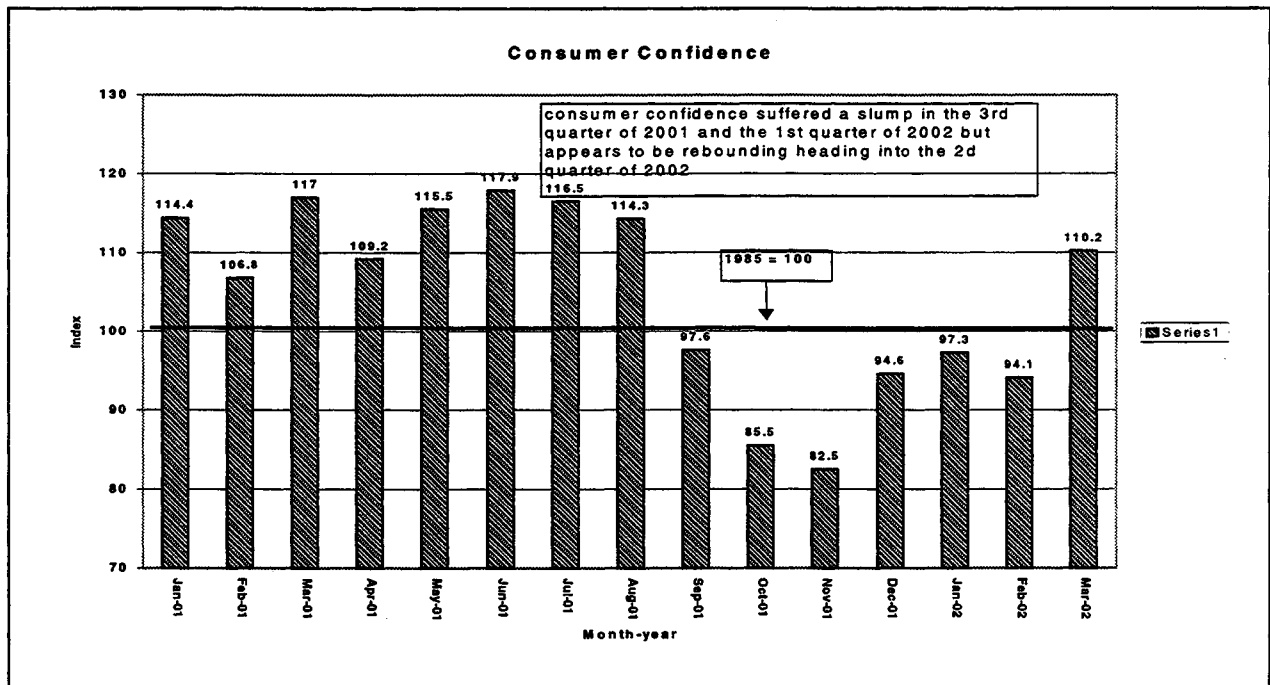
While the economy appears to be recovering in early 2002, it is not a robust recovery. In a December 12, 2001 press release, the Minneapolis Federal Reserve Bank reported that the major economic themes in the Ninth Federal Reserve District during 2002 will be:

- Little economic growth.
- Looser labor markets.
- Little wage/price pressure
- More uncertainty

Local Economic Outlook

The finance department reports the City's financial condition and results of operations quarterly during the year to the Mayor and City Council. Traditionally, the quarterly reports look at three major indicators to gauge the health of local economy: consumer confidence, unemployment, and the vacancy rates in the City's Central Business District (CBD).

Consumer Confidence

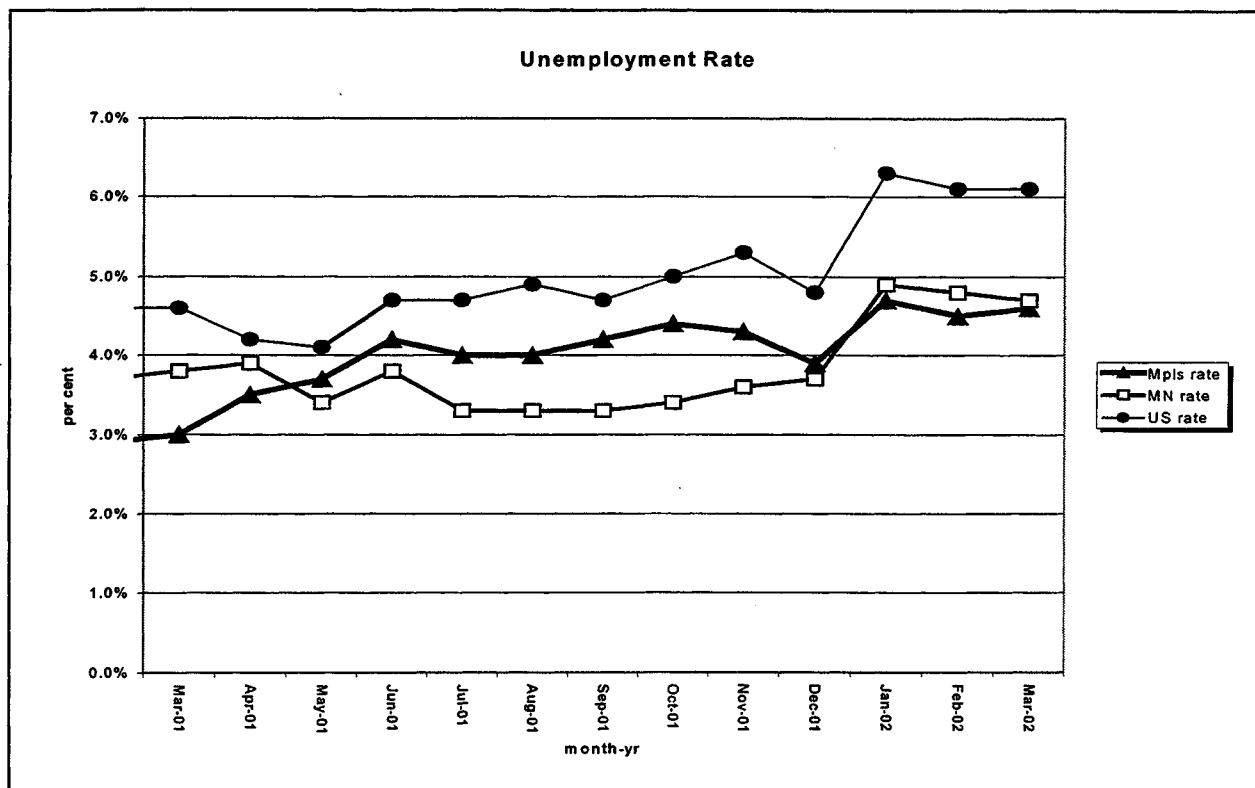


A nationally recognized business and economics research organization, the Conference Board, collects and reports confidence statistics monthly.

At third quarter, 2001, consumer confidence showed a long-term, fairly steady decline from December 2000 through August 2001. After the September 11 attacks, consumer confidence dropped off sharply. Between December 2000 and November 2001, the consumer confidence index dropped 36% from 128.3 to 82.5. After reaching its lowest level in a decade during the fourth quarter of 2001, Consumer confidence appears to be rebounding heading into the second quarter of 2002.

Consumer confidence is normally seen to be a "leading indicator" of future economic activity. As consumers gain confidence, they tend to increase purchasing. Therefore, the rebound in consumer confidence is a good sign for a recovering economy.

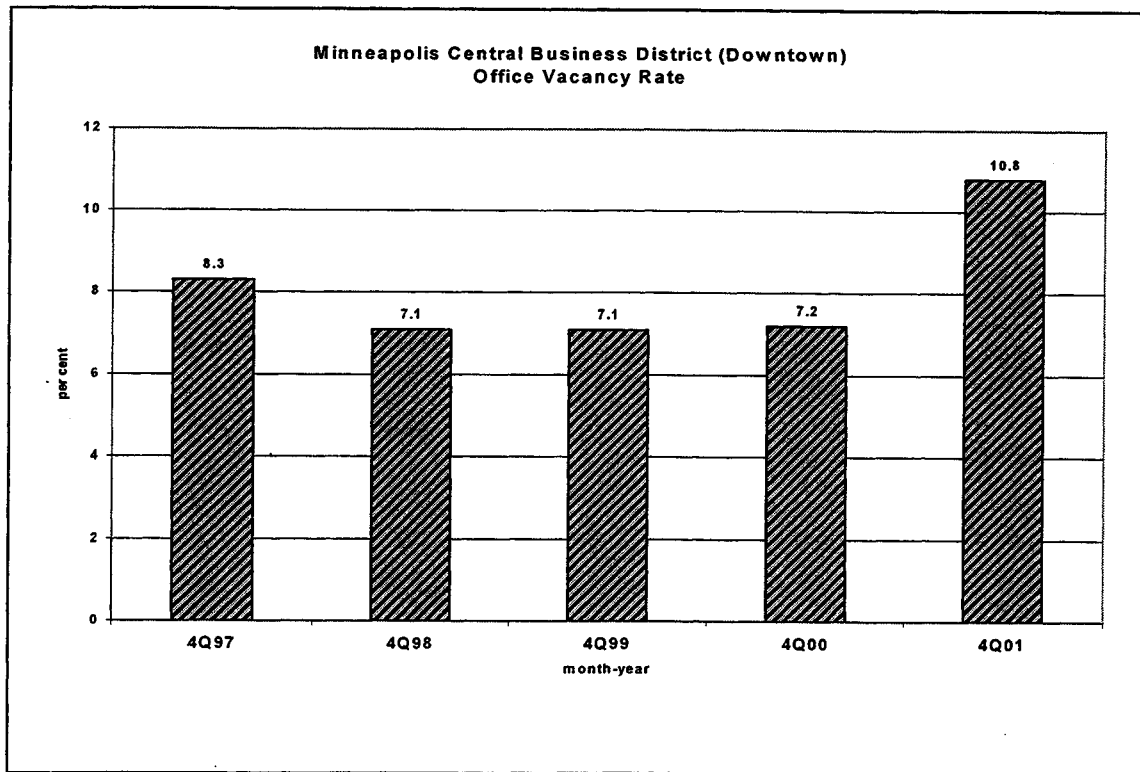
Employment



Employment is a measure of both the current state of the economy and an indicator of near-future activity. The State of Minnesota Department of Economic Security (DES) collects and publishes local, state and national employment statistics. The third quarter report presented DES statistics that showed unemployment in the State and in Minneapolis were at their highest levels (on a consistent basis) since the fourth quarter of 1996. This trend appears to have abated. Unemployment seems to have peaked both nationally and locally in January of this year. The unemployment rate has remained fairly steady through the first quarter of 2002.

Employment is generally considered to be a lagging indicator of economic activity. After a recession, employers, particularly manufacturers, tend to increase overtime but delay hiring new workers until future demand seems reasonably estimable. Therefore, the somewhat high levels of unemployment do not seem worrisome at this time. Rather the fact that the unemployment rate has ceased increasing is an indicator of the economy's recovering health.

Downtown Office Space – Vacancy Rate



Like employment statistics, real-estate statistics can be good indicators of both the current health of the real-estate sector of the economy and of possible future trends. Because of the importance of real-estate taxes as a source of local government revenue, real-estate statistics are an important economic gauge for municipalities. Several commercial real estate companies compile and report important real-estate statistics. The Towle Company regularly reports on local real-estate conditions twice annually. Towle's statistics indicate that after a period of declining office vacancy in the Minneapolis Central Business District (CBD), we are now seeing an increase in office vacancy rates. While the Minneapolis CBD vacancy rate is still a strong 10.5% this rate does not account for sublease vacancies. If subleasing were factored in, the total vacancy rate would be in the 12 – 13 % range. In their 2002 market report, Towle notes that the Minneapolis out-of-CBD market is actually the weakest in the St.Paul/Minneapolis metropolitan area with a combined direct and sublease vacancy rate of 27.2%. The surfeit of rental space will prompt competition driving rental rates lower and concessions higher.

Lower rental rates and higher concessions imply lower cash flows from office buildings which, in turn, lowers their taxable value. Lower taxable values on business properties increases the amount of the real estate tax levy borne by residential properties. In 2001, the City's tax collections were mildly adversely affected by a tax-court ordered adjustment to the valuation of one office building in the CBD.

It is possible, that the rate and ultimate amount of taxes collected in 2002 could be slightly decreased by the current vacancy level in the CBD. However, the ultimate effect is not likely to be material in amount. Higher vacancies could translate into tax court challenges and abatements during the year. If successful, tax court challenges could adversely affect City property tax

collections. The City Assessor, Scott Renne, reports that Tax Court petitions have gone up in both 2001 and 2002 as follows:

Tax year payable	# of petitions	# of parcels	% change over prior year - # of petitions	% change over prior year - # of parcels
2000	136	274	na	Na
2001	230	503	69%	84%
2002	303	621	32%	23%

Because of the City Assessor's historically proactive approach to responding to market changes, the Finance department believes it is unlikely that the City will see a major effect on tax collections due to the increased number of petitions in 2002. However, the Assessor points out that it would be prudent to assume some allowance be made for the number of cases and points out the practical difficulty for the City in defending assessed values under poor market conditions.

FINANCIAL INFORMATION

Annual financial reports quantify the results of past actions and decisions. While past results do not necessarily predict future outcomes, they provide useful information for citizens, investors, and others to make reasonable judgements about the amount, timing, and probability of the City's future cash-flows.

Internal Service Funds

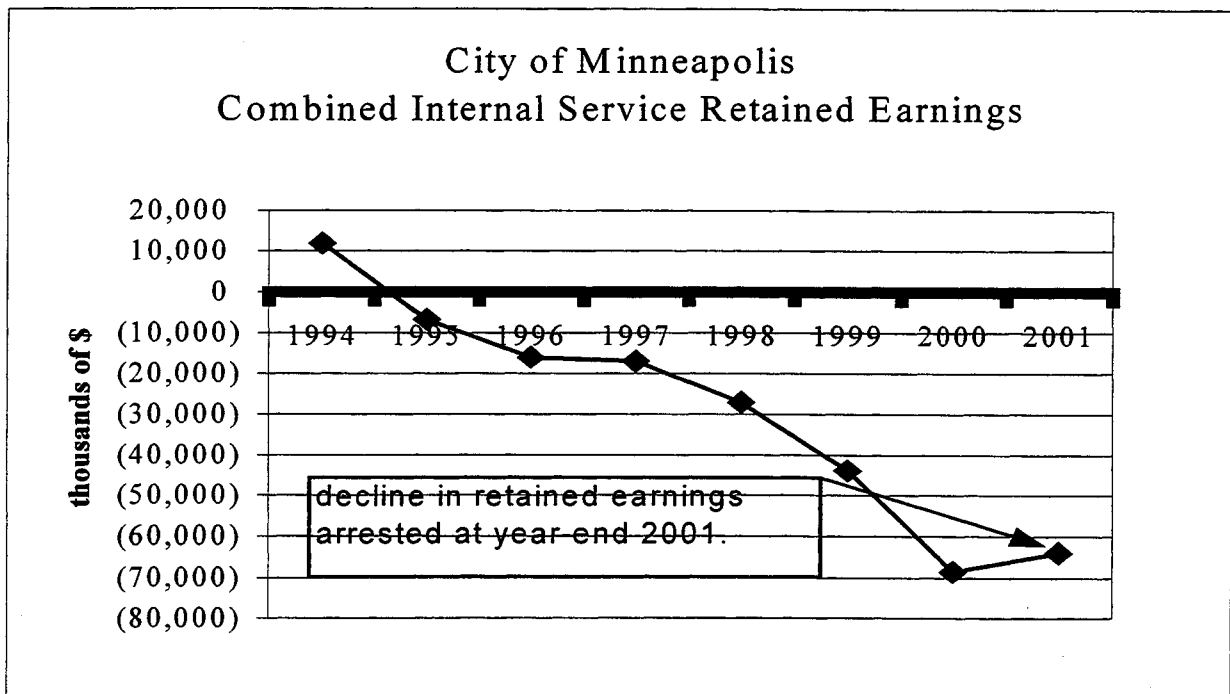
The City of Minneapolis operates six internal service funds: Engineering materials and testing; Intergovernmental services; Property services; Permanent improvement equipment; Public works stores; and the Self-Insurance fund. Internal service funds operate like for-profit businesses: they charge user fees to recover the cost of operations and accumulate equity for various purposes. Unlike businesses, internal service funds do not sell significant amounts of goods and services to third parties. Instead, they have one, captive customer—the City government itself.

While the financial condition of the Internal service funds continues to represent a major financial challenge for the City, 2001 appears to have marked a turning point for these funds. Over the last seven years the financial condition of these funds deteriorated, reaching a low point at year-end 2000 when the combined retained earnings deficit had grown to -\$68.5 million. In 2001, the deteriorating retained earnings trend was arrested, and the combined retained earnings deficit in the Internal Service funds improved by 7 *per cent* from the FY2000 year-end to a total of -\$63.9 million at December 31, 2001.

In 2000, the Mayor and City Council adopted a multi-year financial plan for the Intergovernmental services fund. A similar plan was adopted for the Permanent improvement equipment fund in 2001. A plan for the City's self-insurance fund will be prepared in 2002. These plans are available for review on-line at www.ci.minneapolis.mn.us, or by writing the City's Finance Officer. The financial plans published in the City's FY2002 budget are based on the work-out plans.

From 1999 through 2001 the City has increased the annual revenue for the Internal Service Funds by \$4.0 million, funded from property tax revenue increases. This additional funding has allowed the rates charged to other city funds to be adjusted to closer reflect the actual cost of services provided. The City will continue to increase internal service charges or contribute other unrestricted funds until the Internal service fund revenues are sufficient to cover expenses. The City anticipates that revenues will exceed expenses by 2003. Negative cash balances within the Internal Service Funds are projected through 2008 according to adopted and pending financial plans.

While the combined internal service funds are still in very serious condition, 2001 was a success for the City's work-out strategy. Results of operations for the two funds operating under formally adopted work-out plans conformed remarkably closely to the plans.



The Permanent improvement equipment fund posted operating revenues almost \$8 million higher than planned, because of higher than expected equipment rentals charged to two major constructions projects: Light Rail Transit (LRT) construction and the Near North project. Expenses were virtually identical to plan at \$29.4 million. Transfers-in were exactly on plan at \$5.2 million. Net bond proceeds were exactly according to plan at \$6 million. The fund's cash balance exceeded plan by almost \$3 million because of the stronger than expected operating results. Unfortunately, retained earnings were about \$3 million less than planned because the original plan did not take into account the balance sheet effects of the \$6 million debt issuance. When the plan is reviewed and revised, the net asset balances will be adjusted to reflect the work-out debt.

The Intergovernmental Services fund (ITS fund) reported operating expenses almost \$2 million or 12 *per cent* higher than the planned \$16.9 million. This was due to a major revision of the Information Technology business model after the plan was adopted. To maintain the integrity of the work-out plan, the City increased transfers to the ITS fund to offset the increased expenses. As a result, the fund's 2001 retained earnings are almost exactly at the planned level of (\$15.4

million). As was the case in the Permanent improvement equipment fund, cash balances in the Intergovernmental services fund did not meet plan. The cash (deficit) reported in the Intergovernmental fund was (\$16 million) at 12/31/01 versus a planned deficit of (\$14 million). The cash deficit measures cash net of interfund advances. The larger than planned cash deficit was due to a reduction in some short term liabilities during the year.

The City has shown a commitment to address the major challenge that exists within the Internal Service Funds and is confident that the financial plans that have been adopted and will be adopted will resolve the condition within an acceptable time period.

General Fund

The General Fund is the main operating fund for the City of Minneapolis. Most of the services generally associated with local government are at least partially financed through the General Fund. The General Fund pays for: police protection; fire protection; designing and maintaining roads and other infrastructure; enforcing health and building codes; and, providing the general administrative services necessary to running the business of government itself.

General Fund Revenue Analysis (in thousands):

Revenues and other Sources (by importance)	2001 Amended Budget	2001 Actual	2000 Actual	Percentage Incr./ (Decr.) 2000 – 2001
Intergovernmental Revenue	90,979	91,731	88,475	3.7%
Property Tax	63,253	63,279	56,634	11.7%
Franchise Fees	22,152	25,563	21,594	18.4%
Licenses and Permits	19,079	20,697	19,243	7.6%
Charges for Service	14,356	16,289	17,252	(5.6 %)
Fines and Forfeits	7,235	7,974	6,742	18.3%
Special Assessments	2,655	2,637	2,766	(4.7%)
Investment Income	1,195	2,322	2,705	(14.2%)
Miscellaneous Revenue	2,399	808	1,199	(32.6%)
Total Revenues	223,303	231,300	216,610	6.8%
Transfers in	16,427	18,733	26,280	(28.7%)
Total Revenues and other Sources	239,730	250,033	242,890	2.9%

Total General Fund revenues and other sources grew by 2.9 *per cent* or approximately \$7 million in 2001 over 2000 levels. Total revenues and sources exceeded 2001 budget by slightly more than \$10 million or about 4.3 *per cent*. In 2001, as was the case in 2000, franchise fees and license and permit revenues were significantly higher than budget.

Franchise fees are charged to certain utilities that operate within the public right of way. The City's franchise fees are based on a percentage of the franchisee's gross revenues. The City's largest franchisees are Xcel energy (electric utility) and Reliant energy (gas utility). The higher than expected franchise revenues in 2000 were attributed to colder than normal winter weather. The City did not budget a large increase in franchise revenues for FY2001 in anticipation of more moderate weather. Weather notwithstanding, persistently high energy prices caused franchise fees to grow again in FY2001. During 2001, franchise fees increased by approximately \$4 million over 2000 levels and were 15 *per cent* above budget.

In spite of the softening commercial real estate market noted above, momentum from the 1999-2000 building boom carried through in 2001. Fees on building projects already "in the pipeline" helped to support building permit revenues at approximately the same level as FY2000 and approximately \$700 thousand (5 *per cent*) over FY2001 budget. In addition, the City's new lane use fee contributed approximately \$500 thousand over budget for FY2001.

General Fund Expenditure Analysis (in thousands):

Expenditures and other Uses (by reporting category)	2001 Amended Budget	2001 Actual	2000 Actual	Percentage Incr./ (Decr.) 2000 – 2001
General Government	37,687	36,905	38,346	(3.8%)
Public Safety	143,995	143,479	145,259	(1.2%)
Highways and Streets	38,814	38,812	34,744	11.7%
Health and Welfare	3,928	3,884	3,576	8.6%
Total Expenditures	224,424	223,080	221,925	0.5%
Transfers out	25,523	25,369	11,945	112.4%
Total Expenditures and Other Uses	249,947	248,449	233,870	6.2%

Increased departmental expenditures were due primarily to higher wage rates from contract settlements and less anticipated savings from staff turnover. Highway and street expenditures increased due to higher than expected snow and ice control expenditure. Street expenditures exceeded the original budget because of the unexpectedly high snow and ice expenditures combined with higher than budgeted equipment rental charges.

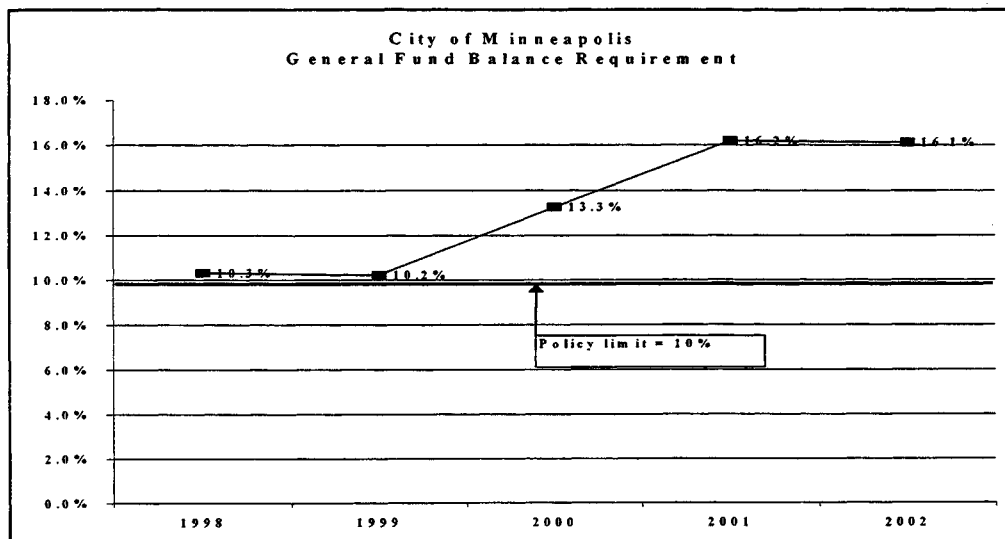
Fund Balance:

By City Charter, the General Fund may not spend more than its adopted expenditure budget in any year. There are no legal restrictions on revenue similar to those on expenditures. During any given year, revenues may be more or less than budget. As a result, revenues (and other sources of funds) usually exceed expenditures. Differences between revenues and expenditures are closed into the fund balance at the end of each year. The fund's original FY2001 budget anticipated spending down approximately \$6 million of accumulated fund balance largely to help recapitalize the internal service funds. The revised budget, as reported in the detailed fund statements in this report, assumed an even larger \$10 million decrease in fund balance because revised expenditure estimates during the year were not offset by revised revenue estimates. However, primarily because of the positive revenue variances discussed above, the General Fund's balance increased during 2001 by approximately \$1.5 million (or approximately 4 *per cent*) over last year's balance.

General Fund Summary (in thousands of dollars)			
	Revenues and other Sources	Expenditures and other Uses	Change in Fund Balance
Original 2001 Budget	235,033	241,207	(6,174)
Revised 2001 Budget	239,730	249,947	(10,217)
Actual 2001 amounts	250,033	248,449	1,584
Actual 2001 as % of Original 2001 Budget	106%	103%	n.a.
Actual 2001 as % of Revised 2001 Budget	104%	99%	n.a.

The General Fund's balance is an operating reserve (source of working capital) and a cushion against adverse economic surprises. The City's policy is to maintain a General Fund balance of 10 *per cent* of the following year's budgeted revenues (and other uses). The balance at the end of 2001 represents 16.1 *per cent* of General Fund budgeted revenues for 2002.

Year (YYYY):	1998	1999	2000	2001	2002
GF Balance at 01/01/YYYY	21,085	21,763	29,038	38,040	39,624
YYYY Revenue Budget	202,916	212,762	218,826	235,033	245,792
Fund Balance as a % of Revenue Budget	10.3%	10.2%	13.3%	16.2%	16.1%



Special Revenue Funds

The Special revenue funds account for revenues that are earmarked for specific purposes. The use of a Special revenue fund is usually required by State statute, City charter, City ordinance, or grantor requirements. The City of Minneapolis reports eleven separate Special revenue funds.

The eleven Special revenue funds can be divided into four major groups (in thousands):

Group	Funds included	2001 amended Expenditures & Other Uses Budget (group)	2001 Actual (group)	2000 Actual (group)	Percent Change 2000 – 2001
MCDA	MCDA	92,261	42,280	36,826	12.9%
Grant Funds	Includes: CDBG, Federal and State Grants	85,152	46,363	43,639	5.9%
Convention Center and Reserve	Convention Ctr. and Arena reserve funds	60,436	58,658	68,923	(17.5%)
Other	Includes: Police grants, MBC, BET Retirement	21,830	21,057	21,110	0%
Total		259,679	168,358	170,498	(1%)

MCDA

The MCDA funds account for the development activities of the Minneapolis Community Development Agency. The combined entity that is reported as the MCDA special revenue fund in the City's financial statements consists of the Agency's General Fund as well as 10 special revenue funds which are separately reported in the Agency's own financial reports. The special revenue supporting these activities is largely Intergovernmental revenues. Combined, federal transfers, state and local grants, and other intergovernmental revenues accounted for approximately 63 *per cent* of the MCDA special revenue fund's revenues and other sources as reported in the City's 2001 CAFR. The Agency's primary expenditures are for urban redevelopment and housing. MCDA special revenue fund expenditures and other uses totaled \$42.3 million in 2001 which represents 36 *per cent* of total expenditures from City special revenue funds.

The MCDA publishes a separate financial statement detailing the financial condition and results of operations of all their funds. A copy of the report may be obtained by writing to The Executive Director, Minneapolis Community Development Agency, Crown Roller Mill, Suite 200, 105 Fifth Avenue S., Minneapolis, MN 55401.

Grant Funds

The City receives grant money from a variety of sources. The largest single source is the Federal Community Development Block Grant program (CDBG). The purpose of the CDBG program is to channel federal funds to local uses for the benefit of low and moderate-income persons. Because of the size and importance of the CDBG program to the City's overall finances, the CDBG grants are accounted for in their own fund. The CDBG fund spent (or transferred to other funds) \$21.2 million in 2001, which represents approximately 13 *per cent* of total City special revenue expenditures (and transfers) in 2001.

Over the long-run grant expenditures should equal grant revenues and fund balance should be zero. However, over the life of individual grants, timing differences between the receipt of grant income and outlays for program expenditures cause fund balances to fluctuate which can create liquidity demands on other City resources

Convention Center , Convention Center Reserve, and Arena Reserve Funds

The Convention Center accounts for the maintenance and operation of the Minneapolis Convention Center. The Center was built as an investment to foster economic growth and vitality by providing facilities and services for a wide variety of conventions, shows, and events that would benefit and showcase the City, the region, and the State. The Convention Center fixed assets are included in the City's General Fixed Assets.

Local sales, lodging, and entertainment taxes support the Convention Center. In spite of the general softening of the economy in 2001 and, in spite of the serious adverse effect the September terrorist attacks had on the travel and entertainment segment of the economy, the Convention Center maintained relative strong tax revenues in FY2001:

Convention Center Fund – Tax Revenues (in thousands)				
Revenues	2001 Amended Budget	2001 Actual	2000 Actual	Percentage Incr./ (Decr.) 2000-2001
Local Sales Tax (0.5% applied City-wide)	27,800	27,379	27,391	-
Lodging Tax (2% applied to hotels and motels with more than 50 units)	2,800	2,934	2,983	(2%)
Food and Liquor Tax (3% on sales in the core downtown area)	10,600	10,328	10,880	(5%)
Entertainment Tax (3% on sales in the core downtown area)	7,000	6,963	7,071	(2%)
TOTAL SPECIAL TAXES	48,200	47,604	48,325	(2%)

During the first quarter of 2002, some weakness in Convention Center-related tax collections has become apparent. Total tax revenues through the first quarter of 2002 are approximately 5% behind historical collections.

Debt Service Funds

Debt service funds account for resources used to pay the City's general long-term debt. Debt issued by the City's Enterprise and Internal Service funds is accounted within those funds. The City reviews its liability for arbitrage rebate annually. If applicable, the arbitrage rebate liability would be recorded in the appropriate fund.

The City is current on all its debt payments.

Capital Projects Funds

Capital projects funds account for the construction of infrastructure and other long-term governmental assets. Activity in the Capital Projects funds is closely related to activity in the long-term debt group of accounts and the Debt Service funds. Assets constructed by the capital projects funds are often initially funded through debt. The debt is accounted for in the City's long-term debt group of accounts. Repayment of bonded debt is accounted for through the debt service funds. Most of the activity that flows through the capital projects funds is planned through the Capital Improvement Plan (CIP).

Enterprise Funds

Enterprise funds sell goods and services to third parties and recover the costs of providing these goods and services through user charges. The MCDA operates the River Terminal facility for the City as well as operating its own enterprise activities. The City manages four other enterprise funds: the Municipal Parking fund; the Solid Waste and Recycling fund; the Sewer Rental fund; and the Water Works fund. The performance of municipal enterprises can be evaluated on the same basis as that of investor-owned enterprises. Of particular importance is the business' ability to recover its costs and retain net income for replacing or expanding its productive assets. Therefore, during the course of the year, the City focuses on two key measures of financial performance in its enterprise funds: operating margin and return on assets. Operating margin is a measure of managerial efficiency. It measures how efficiently enterprise management is converting each dollar of revenue into a dollar of operating income. Return on assets measures how efficiently the City is using its investment in enterprise assets.

The City's Enterprise operations are in generally sound financial condition. However, the Parking fund is currently in an expansionary phase. It has incurred debt to expand its investment in productive assets (build more ramps). These large new investments are not yet producing revenue and therefore, the fund is temporarily unable to generate sufficient cash-flow from operations to service all of its debt. The fund receives debt service transfers which it uses to meet its obligations when due. Until the new ramps are completed and generating revenue the fund will show a negative revenue debt coverage ratio (see statistical table No 11).

CASH MANAGEMENT

During the year cash was invested in certificates of deposit, obligations of the U.S. Treasury, commercial paper, various agency mortgage pools, taxable municipal obligations, and money market funds. The average return on investments during the year was 5.79 *per cent* (source: Finance Department, Treasury). The City pools cash for investment management purposes and distributes

investment income daily to funds that are designated to earn interest. As part of the Internal Service fund workout plans, the City has eliminated the working capital charge it used to assess against these funds' deficit cash balances.

DEBT MANAGEMENT

The primary goal of the City's debt management practices is to maintain its ability to access capital markets at the lowest possible cost (interest rate) without endangering its ability to finance essential services. The City's conservative financial practices have earned its general obligation debt some of the highest ratings available from national bond rating services as follows:

- Fitch - 07-31-01 - AAA
- Moody's Investors Service - 07-30-01 - Aa1
- Standard & Poor's - 07-30-01 - AAA

The City's debt was downgraded by Moody's Investors Service in 2001 due to the long-term deterioration of the City's Internal Service Funds. As noted above, the City's internal service funds are reporting improved condition as of 12/31/01. Based on results to-date, City management expects that it will be able to recapitalize the internal service funds in accordance with its adopted work-out plans.

RISK MANAGEMENT

The City accounts for its Risk Management activities as an internal service fund and charges the operating funds annually for the anticipated actuarially projected ultimate incurred claims. The City's risk management program operates under the direction of the Risk Management and Claims Division, within the Finance Department. Various programs have been developed to reduce the City's risk of loss including: a comprehensive employee health and safety program; a strategy to reduce tort liability exposure; a financial plan to minimize losses; and, a strategy to reduce the frequency of injuries and illnesses and the cost of workers' compensation.

INDEPENDENT AUDIT

Minnesota State Law requires the Office of the State Auditor (OSA) to perform the City's annual audit. The OSA's report on the City's general purpose financial statements is based on their audit in accordance with generally accepted auditing standards. The Auditor's unqualified audit opinion is included as page one and two in the financial section of this report.

In addition to meeting the State and City's financial audit requirements, the OSA's audit was designed to meet the requirements of the federal Single Audit Act and the related U.S. Office of Management and Budget's Circular A-133. The OSA prepares a separate report on covered activities.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Minneapolis for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2000. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report the contents of which conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Minneapolis has received the award for thirty-two years. We believe our current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to the GFOA for review.

FORWARD-LOOKING STATEMENTS

The City regularly communicates information concerning its financial plans, condition and results of operations to investors, securities analysts, the news media, and others as part of its normal operations. Some of these communications include “forward-looking” statements concerning management’s analysis and expectations as to future plans, results of operations, etc. Forward-looking statements can usually be identified by the use of terms such as “anticipates”, “believes”, “intends”, and similar phrases. Management’s expectations for the City’s future finances naturally involve a number of assumptions and estimates. Various factors could cause actual results to differ materially from these expectations including changes in the State of Minnesota’s property tax laws, changes in market interest rates, changes in tax collections, the availability of Federal or State funding for certain programs, etc. Users of the financial statements should evaluate forward-looking statements in light of the risks the City faces.

HOW TO CONTACT MANAGEMENT

For the benefit of its bondholders, the City provides each nationally recognized securities information repository (NRMSIR) with its financial statements within 270 days of each year-end commencing with years ending after December 31, 1996.

Copies of the City of Minneapolis financial statements are available by writing to The City’s Finance Officer at The City of Minneapolis, 350 South Fifth Street, Minneapolis, Minnesota, 55415. The annual financial report is also available on-line at www.ci.minneapolis.mn.us.

ACKNOWLEDGEMENTS

Preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the City's finance department, the Library Board, the Park Board, and the MCDA. Mr. Jacob Cherucheril of the City's finance department merits special mention for his extraordinary efforts to coordinate the accounting underlying these financial statements as well as their production. In addition, we would like to thank the State Auditor's Office for their thoroughness and professionalism in conducting the City's audit. Finally, we would like to thank the Mayor, members of the City Council, and the City Coordinator, John Moir, for their interest in conducting the financial operations of this City in a responsible and progressive manner.

Respectfully submitted,



Patrick P. Born
Finance Officer



Tammy Omdal
Director, Financial
Planning and Budget



Michael Hagerty, CPA
Controller